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FINANCIAL DIGEST

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HAVE INTEREST RATES PEAKED?

The sharp rise in short- and long-term interest rates induced by the Federal Reserve's early-October policy package began to sputter toward the end of last month, reflecting both a slowing in the growth of the money supply and stepped-up official criticism of recent prime rate increases. In addition, two important commercial bank reserve indicators registered significant declines during the week ending October 24: Total reserves declined by $400 million, while non-borrowed reserves fell $1.9 billion, fueling speculation that, at least in the near-term, monetary policy would not be further tightened.

Against this backdrop, key short-term rates stabilized. Specifically, although most major banks boosted their prime lending rates from 14.50 to 15.00 percent on October 23, a later move by several banks to 15¼ percent has only slowly gained widespread industry acceptance (it did, however, gain immediate Congressional criticism). By contrast, 90-day certificate of deposit rates declined during the week ending October 30, from 14.50 to 14.38 percent. Moreover, on October 29 Treasury bill auction rates retreated from their lofty heights. The average discount rate on new three- and six-month bills declined almost 70 and 50 basis points, respectively, from week-earlier levels, reaching 12.26 and 12.19 percent.

Similarly, in the longer-term markets, where traders and investors are still trying to decide whether the cure (restrictive monetary policy) or the disease (ongoing price inflation) is more unpalatable, prices bounced back a bit, slowing the steep rise in yields. In the corporate sector, AAA yields rose 30 basis points during the week ending October 30 (to 10.74 percent), somewhat less than the 40 basis point advance registered one week earlier. The advance of AA corporate yields slowed even more dramatically, from 57 basis points in the earlier week to only 11 basis points last week, reaching 11.04 percent on October 30. Among Bell System issues, Mountain States Telephone and Telegraph's new 11.25 percent debentures have consistently sold above par indicating that, for the present, an interest rate peak has been reached.

Further increases may occur in the government sector, however, where the Treasury is currently engaged in raising $6.75 billion through three new issues: 3½- and 10-year notes, and 30-year bonds. Although the average yield on Treasury notes declined 26 basis points during the week ending October 30, yields on the first phase of the funding operation—the 3½ year issue—averaged 11.64 percent, a record high level for this maturity—but somewhat below original expectations. Yields on the 10-year notes also reached record highs; auctioned on October 31, the average return was 10.75 percent. But whether the modest firming evident in the corporate and government sectors will spill over into the municipals area, and generate some price recovery, is unclear. Prices remain extremely depressed and yields correspondingly high. The Bond Buyer Index posted another large gain during the week ending October 25 up 20 basis points to 7.38 percent—a new high for this year and less than 30 basis points away from the historic peak of 7.67 percent reached in October 1975.

MAYBE

In sum, the response to the original question—have interest rates peaked?—is a qualified yes. The worst of the interest rate and bond price spasms appear to have subsided, more orderly conditions prevail, and the markets have been forcefully reminded that curbing inflation is the premier policy priority. In this sense, future reactions to central bank initiatives will probably seem anticlimatic. On the other hand, the Fed's arsenal is far from being depleted and future initiatives can be expected if the most recent measures are not effective—generating even higher interest rates, lower bond prices, and greater uncertainty. Only time will tell, as will, of course, the inflation rate statistics.

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 11/2/79	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	123,941	+1,479	— 144
Member Bank Borrowings	3,056	+ 96	+ 1,747
Float	4,136	—1,173	— 819
Total Reserve Bank Credit	135,949	+ 644	+ 2,404
Treasury Deposits with Federal Reserve Banks	3,073	— 432	—12,035
Currency Outside Banks	108,631	—1,239	+ 9,551
Member Bank Reserves:			
Required	43,264	+1,731	+ 4,966
Excess (Deficiency)	358	+ 207	+ 220
Total Reserves Held	43,622	+1,938	+ 5,186
Net Borrowed Reserves	2,511	— 134	+ 1,574
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	81,929	—1,100	— 9,874
		r-Revised	
	10/24/79		
Money Supply ($ Bil., SA) M1	377.5	— 1.3	+5.0%
Money Supply ($ Bil., SA) M2	937.7	— 1.2	+7.9%

NEW YORK MONEY MARKET

Offering Rates 11/2/79

	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.90%	12.02%	11.57%
*Federal Agencies	13.10	13.19	12.95
*Project Notes—Tax Free (46% Taxable Equivalent)	5.85	6.60	6.70
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	14.50	14.55	

‡Finance Company Paper—Prime

5- 14 days	13.50%
15- 29 days	13.95
30- 59 days	14.15
60-179 days	12.88
180-270 days	12.25

‡Industrial Paper—Prime

30- 89 days	14.15
90-120 days	14.20

‡*Bankers' Acceptances

Dec.	14.00%
Jan.	14.10
Feb.	14.10
Mar.	13.90
Apr.	13.80
May	13.60

†Federal Funds Effective Rate 14.75%

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'79	$ 2,392	$ 2,330	$ 2,160
Gross National Product (1972 Dollars)*	3rd Q'79	$ 1,431	$ 1,422	$ 1,407
Percent Change, Annual Rate	3rd Q'79	2.4%	—2.3%	3.5%
Change in Consumer Prices (all urban consumers)*	Sept. '79	13.2%	13.2%	10.8%
Change in Producer Prices*	Oct. '79n	12.0%	16.8%	9.6%
Civilian Employment (Thousands of Persons)†	Sept. '79	97,513	96,900	95,010
Unemployment as % of Civilian Labor Force†	Sept. '79	5.8%	6.0%	5.9%
Personal Income*	Sept. '79	$ 1,955	$ 1,943	$ 1,756
Leading Indicators Composite Index (1967=100)†	Sept. '79n	141.3	140.2	142.9
Industrial Production Index (1967=100)†	Sept. '79	152.3	151.5	148.6
Net Change in Consumer Instalment Credit†	Aug. '79	$ 2.45	$ 2.44	$ 3.63
U.S. Merchandise Trade Balance†	Sept. '79n	—$ 2.83	—$ 2.36	—$ 1.55
Plant and Equipment Expenditures*	4th Q'79	$179.56(a)	$174.74(a)	$163.96
Private Housing Starts (Thousands of Units)*	Sept. '79	1,881	1,806	1,948
New Construction Expenditures*	Sept. '79n	$ 235.8	$ 232.4	$ 215.3
Total Business Inventories†	Aug. '79	$ 417.2	$ 413.8	$ 366.6
Total Business Sales†	Aug. '79	$ 292.7	$ 288.6	$ 259.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (10/24/79)	90,119	+ 427	+ 620
New York City (10/31/79)	18,787	+ 560	— 8,183
Commercial Paper (10/24/79)	107,643	—1,203	+28,445

BANK LOANS

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/24/79)	151,752	+ 169	+22,448
New York City (10/31/79)	45,532	+ 563	+ 7,257

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/24/79)	384,881	—2,398	+56,347
New York City (10/31/79)	87,759	+1,003	+ 8,664

SECURITY MARKETS

	Friday 11/2/79	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	12.04%	+ .17	+ 3.24
180-Day Bills (Discount Basis)	12.15	+ .03	+ 2.74
Longest Bills (Discount Basis)	11.65	+ .15	+ 2.39
12⅝s 10/30/81	100.24	— 13/32	
9¾s 9/30/83	94.24	— 24/32	
10¾s 11/15/89	99.14	N.A.	
10⅛s 11/15/94	95.25	— 2-7/32	
10⅜s 11/15/09	99.16	N.A.	
Municipals:			
Bond Buyer—20 Bond Index* (11/1/79)	7.26%	— .12	+ 1.04
Blue List Total ($ Million)	$ 509	—$ 16	—$ 154
30-Day Visible Supply ($ Million)	$1,760	+$ 185	—$ 240
Total	$2,269	+$ 169	—$ 394
Corporates:			
Moody's Aa Composite (11/1/79)	11.06%	+ .01	+ 1.81
Money Mgr.—30-Day Supply ($ Million)	$1,759	+$ 360	+$ 270
Stocks:			
Dow-Jones Averages			
Industrials	818.94	+ 9.64	— 4.17
Transportation	232.81	+ 4.28	+ 15.97
Utilities	100.54	+ 0.95	+ 2.23
65 Stocks	284.97	+ 3.77	+ 5.78
Standard and Poor's 500 Stocks	102.60	+ 2.03	+ 6.42
N.Y.S.E. Composite Index	58.17	+ 1.22	+ 4.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	25,830	— 7,716	—18,120

*46% Taxable Equivalent 13.44%

INTERNATIONAL RATES

	Friday 11/2/79	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.38%	14.25%
1 month	15.00	15.13
3 months	15.63	15.63
6 months	15.31	15.38
1 year	14.19	14.38
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.90%	11.50%
Long Term (10 to 15 yrs.)	11.75	11.65
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03436	.03442
Canada	.8425	.8481
France	.2371	.2364
Germany	.5558	.5544
Italy	.001202	.001204
Japan	.004253	.004263
Mexico	.04370	.04374
Netherlands	.5000	.4991
Switzerland	.6051	.5998
U.K.	2.0610	2.1074